

## **Section 5: ARRA Bonds**

10/27/09

### **Qualified School Construction Bond**

The Qualified School Construction Bond program provides Local Education Authorities with a method of funding construction/repair/renovation of public school facilities or for land acquisition for a public school facility. The building must be built within three years of land acquisition and from the same bond proceeds as the land acquisition.

Bonds are to be issued by the local government within state allocation limits set by the U.S. Treasury, based on Title I formulas. The U.S. Treasury allocated \$88.6 million to N.C.'s five largest LEAs with high Title I percentages. The N.C. Superintendent's Advisory Council allocated the remaining \$183.7 million to the other LEAs.

Purchasers of QSCBs receive a federal income tax credit against the individual's or entity's federal income taxes at a rate set by the U.S. Treasury that, on average, equals the amount of interest schools would ordinarily pay on debt. This tax credit is in lieu of interest earned on the bonds, with the net result that the local districts are paying zero or minimal interest on bonds issued for public school construction/repair/renovation.

### **Qualified Zone Academy Bond**

The Qualified Zone Academy Bonds (QZABs) program provides LEAs with a method of funding school renovation, repairs, training, equipment and other improvements, but not new construction. The borrowing school district pays the principal back in approximately 15 years. The QZAB program requires a 10% match which may be an in-kind or in cash match.

Bonds may only be issued to qualifying schools where 35 percent or more of students are eligible for free or reduced-price school meals or if the school is located in an enterprise community or empowerment zone. Every State's share is administered by the State Department of Education, which allots the money on a first-come, first-served or other criteria basis.

Through the QZAB program the federal government covers, on average, all of the interest on these bonds, thus enabling schools to save up to 50 percent of the costs of these construction/other projects. The interest payment is actually a tax credit, in lieu of cash, provided to financial institutions that hold the bonds. When a school district issues a QZAB, it is like getting 50% of the funds as a grant.

### **Recovery Zone Bonds**

Recovery Zone Bonds provides local government and private industry with a method of funding construction and improvement of facilities within issuer-designated "Recovery Zones," defined by the Treasury as an area with "significant poverty, unemployment,

home foreclosures or general distress.” U.S. Treasury allocated authority to issue Recovery Zone bonds to 94 counties and 7 municipalities in North Carolina. A notice of intent to use the allocated authority must be filed with the Department of Commerce by December 15, 2009; otherwise the authority reverts to the State.

Recovery Zone Economic Development (RZEDB) bonds finance governmental purposes in a designated recovery zone and Recovery Zone Facility bonds (RZFB) are private activity bonds that finance a private use in a designated recovery zone. RZEDBs may be used for capital expenditures, industrial parks, public infrastructure and construction of public facilities. RZFBs may be used for rehabilitation, renovation and improvement for a trade or business other than specific federally designated prohibited activities. North Carolina received an allocation of \$418,154,000 for RZEDBs and \$617,231,000 for RZFBs.

The Volume Cap Committee will receive applications and make reallocation decisions for the bond authority governmental entities waive back to the State.

October 27, 2009

Subject: American Recovery and Reinvestment Act (ARRA)  
Recovery Zone Bonds Authorization and Reallocation Process

On June 12, 2009, the U.S. Treasury Department released allocations to states for Recovery Zone Bonds which are two new types of debt created by the ARRA to encourage economic development in distressed areas. At this announcement, Treasury also made the allocations to local governments. For North Carolina, the allocations are to 94 counties and 7 cities.

Two types of Recovery Zone Bonds (RZB) are included in the allocation; Recovery Zone Economic Development Bonds (RZEDB), and Recovery Zone Facility Bonds (RZFB). For North Carolina, the RZEDB total \$418,154,000 and the RZFB total \$627,231,000.

The ARRA requires that the bonds be issued before January 1, 2011, or within the next 15 months. As one of the first steps in bond issuance, the governing body of the issuing agency must take formal action by resolution designating a specific area (or the entire county) as a recovery zone.

The distribution process used by Treasury allocates authority to local governments regardless of whether there is a plan to issue bonds within the statutory parameters of these new debt instruments.

Based on our experience to date, some local governments may decide to not utilize this new bond authorization. As a State, it is important that we work together to manage this new financing opportunity to enhance the construction of infrastructure and the creation of jobs.

Following consultation with The North Carolina Association of County Commissioners and The North Carolina League of Municipalities, the state is undertaking a process to retrieve and reallocate the unused bond authorization so that we may optimize our ability to use this financing instrument before it expires in 15 months.

The plan is as follows:

- a. Local governments which received an allocation will be asked to indicate whether they intend to use their bond allocation and to provide information about the projects to be financed to the N.C. Commerce Department. To enhance allocation and utilization, the request will be to do this as soon as possible, but not later than December 15, 2009. A form for this declaration will be provided and made available at [NCRecovery.gov](http://NCRecovery.gov), as well as the websites for the N.C. League of Municipalities, N.C. Association of County Commissioners, and the N.C. Commerce Department.

- b. To use their allocations, Local Governments will be required to have issued RZ bonds by April 15, 2010 or have been placed on the Local Government Commission Agenda for its May, 2010 meeting.
- c. If a local government is unable to meet these time schedules, the bond allocation will be deemed waived to the state for reallocation to projects which can be undertaken within the ARRA time limitations.
- d. Pursuant to legislation passed by the General Assembly, NC Session Law 2009-140, the N.C. Tax Reform Allocation Committee (also known as the Volume Cap Committee) may undertake the reallocation of the bond authorizations. This is an existing statutory Committee under NCGS 143-433.6. The N.C. Commerce Department is the Administrative agency for this Committee.
- e. To guide this process, an administrative procedures document has been developed. The Commerce Department will serve as the primary point of contact for this initiative. The documents may be reviewed at Office of Administrative Hearings website.

As noted, the primary objective of this effort is to enhance the use of these financing resources for North Carolina within the next 15 months. In addition, this reallocation process can be used to facilitate regional projects by combining several local government authorizations which may otherwise not be feasible. This is an unusual initiative, made necessary by the ARRA time schedule requirements.

## Qualified School Construction Bonds

COUNTY	Total Approved Allocation
CUMBERLAND	\$15,900,000
FORSYTH	\$12,244,000
GUILFORD	\$17,147,000
MECKLENBURG	\$25,962,000
WAKE	\$17,304,000
<b>UST Total*</b>	<b>\$88,557,000</b>
ALAMANCE	\$4,991,903
ALEXANDER	\$0
ALLEGHANY	\$3,339,586
ANSON	\$0
ASHE	\$1,256,189
AVERY	\$3,398,127
BEAUFORT	\$0
BERTIE	\$1,231,553
BLADEN	\$1,523,700
BRUNSWICK	\$0
BUNCOMBE	\$5,685,965
BURKE	\$0
CABARRUS	\$7,487,050
CALDWELL	\$2,971,361
CAMDEN	\$3,369,926
CARTERET	\$1,653,861
CASWELL	\$0
CATAWBA	\$9,698,242
CHATHAM	\$3,830,050
CHEROKEE	\$1,282,886
CHOWAN	\$0
CLAY	\$0
CLEVELAND	\$2,306,771
COLUMBUS	\$0
CRAVEN	\$0
CURRITUCK	\$0
DARE	\$3,599,656
DAVIDSON	\$5,076,972
DAVIE	\$3,745,813
DUPLIN	\$0
DURHAM	\$0
EDGECOMBE	\$0
FRANKLIN	\$3,600,730
GASTON	\$5,772,512
GATES	\$0
GRAHAM	\$0
GRANVILLE	\$3,918,111
GREENE	\$0
HALIFAX	\$3,453,516

COUNTY	Total Approved Allocation
HARNETT	\$2,483,426
HAYWOOD	\$3,843,884
HENDERSON	\$4,270,400
HERTFORD	\$0
HOKE	\$1,594,844
HYDE	\$3,002,692
IREDELL	\$4,906,269
JACKSON	\$0
JOHNSTON	\$0
JONES	\$2,200,000
LEE	\$3,980,376
LENOIR	\$0
LINCOLN	\$4,177,786
MACON	\$3,568,603
MADISON	\$3,427,517
MARTIN	\$3,525,984
MCDOWELL	\$0
MITCHELL	\$0
MONTGOMERY	\$0
MOORE	\$0
NASH	\$2,391,376
NEW HANOVER	\$2,901,219
NORTHHAMPTON	\$0
ONSLOW	\$0
ORANGE	\$5,691,511
PAMLICO	\$0
PASQUOTANK	\$1,481,088
PENDER	\$2,500,000
PERQUIMANS	\$0
PERSON	\$0
PITT	\$5,043,632
POLK	\$0
RANDOLPH	\$1,360,043
RICHMOND	\$3,834,774
ROBESON	\$2,866,522
ROCKINGHAM	\$4,334,795
ROWAN	\$0
RUTHERFORD	\$0
SAMPSON	\$0
SCOTLAND	\$3,000,000
STANLY	\$0
STOKES	\$0
SURRY	\$7,222,761
SWAIN	\$1,825,000
TRANSYLVANIA	\$1,297,778
TYRRELL	\$0

COUNTY	Total Approved Allocation
UNION	\$4,000,599
VANCE	\$2,365,370
WARREN	\$1,206,441
WASHINGTON	\$0
WATAUGA	\$1,351,726
WAYNE	\$0
WILKES	\$3,500,000
WILSON	\$0
YADKIN	\$0
YANCEY	\$1,413,178
<b>DPI Total**</b>	<b><u>\$183,764,073</u></b>
<b>NC Total</b>	<b><u>\$272,321,073</u></b>

\*US Treasury distributed Bond Authority directly to the 5 largest NC counties with high Title I percentages

\*\* The North Carolina Superintendent Advisor Council distributed remaining Bond Authority

## **Qualified Zone Academy Bond**

<b>LEA</b>	<b>School</b>	<b>Amount Requested</b>	<b>Total requested per LEA</b>
<b>Bertie County</b>	Bertie High School	\$4,000,000	\$4,000,000
<b>Carteret County</b>	East Carteret High School	\$4,000,000	\$4,000,000
<b>Granville County</b>	Butner-Stem Elementary	\$122,291	
<b>Henderson County</b>	J. F. Webb High School	\$361,185	
	West Oxford Elementary School	\$69,847	\$553,323
	Edneyville Elementary School	\$145,500	
<b>Hyde County</b>	Bruce Drysdale Elementary School	\$31,000	
	Atkinson Elementary School	\$212,000	
	Flat Rock Middle School	\$177,500	
	Glenn C. Marlow Elementary School	\$7,000	
	Upward Elementary School	\$577,000	
	North Henderson High School	\$350,000	
	Apple Valley Middle School	\$307,500	\$1,807,500
	Ocracoke School	\$689,400	\$689,400
<b>Lee County</b>	Lee County High School	\$4,000,000	\$4,000,000
<b>Macon County</b>	Nantahala School	\$1,800,000	
<b>Madison County</b>	Franklin High School	\$2,000,000	\$3,800,000
	7 different schools	\$2,422,534	\$2,422,534
<b>Robeson County</b>	Fairgrove Middle School	\$1,200,000	
<b>Vance County</b>	Magnolia Elementary School	\$250,000	
	W. H. Knuckles School	\$250,000	
	Pembroke Middle School	\$500,000	
	Rosenwald Elementary School	\$1,800,000	\$4,000,000
	Aycock Elementary School	\$276,420	
<b>Wilkes County</b>	Dabney Elementary School	\$384,540	
	Zeb Vance Elementary School	\$276,420	
	EO Young Elementary School	\$204,000	
	Carver Elementary School	\$46,920	
	L. B. Yancey Elementary School	\$21,420	
	Eaton-Johnson Middle School	\$138,720	
	Henderson Middle School	\$14,570	
	Northern Vance High School	\$636,990	\$2,000,000
	North Wilkesboro Elementary	\$300,000	
	Mount Pleasant Elementary	\$300,000	
	Moravian Falls Elementary	\$2,500,000	
	Ronda-Clingman Elementary	\$340,000	
	C. B. Eller Elementary	\$250,000	
	C. C. Wright Elementary	\$110,000	
	North Wilkes High	\$100,000	
	West Wilkes High	\$100,000	\$4,000,000
	Total Applications		\$31,272,757
	Total Authorization		\$56,699,000
	Remaining Balance		\$25,426,243